Oil and Gas News Briefs
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Constrained investment in new supply could keep gas prices high

(Bloomberg; Aug. 6) - The era of cheap natural gas is over, giving way to an age of far more costly energy that will ripple across the global economy. Gas, used to generate electricity, heat homes and feed petrochemical plants, was abundant and cheap during much of the past decade amid a boom in supply. That came crashing to a halt this year as demand drastically outpaced new supply. Prices in Europe reached a record this week, while LNG deliveries to Asia are near an all-time high for this time of year.

With few other options, the world is expected to depend more on cleaner-burning gas as a replacement for coal to help achieve near-term green goals. But as producers curb investments in new LNG supply projects amid calls from climate-conscious investors and governments, it is becoming apparent that expensive energy is here to stay.

Higher prices mean it will be costlier to run factories or produce petrochemicals, rattling every corner of the global economy. For consumers, it will bring higher monthly electricity and gas utility bills. Ordinarily, robust demand would encourage a rush of investment in new export projects. But a big factor in higher gas prices is a lack of fresh capital to increase supply. Growing anti-gas sentiment and heightened scrutiny of dirty methane emissions has stalled projects and forced energy majors to rethink plans.

Without new investment, LNG consumption in Asia — the engine for future gas demand growth — will outstrip supply by 160 million tonnes in 2035, according to Wood Mackenzie. For comparison, Asia imported 250 million tonnes of LNG last year. Mark Gyetvay, deputy CEO of Russian LNG exporter Novatek, warns that the green movement could disrupt the delivery of adequate and affordable supply to consumers. “The lack of capital investments in future gas projects does not lead us to an energy transition, but instead leads us down an inevitable path toward an energy crisis.”

Rising construction costs give LNG expansion projects an advantage

(Natural Gas intelligence; Aug. 6) - Rising construction costs are likely to give brownfield liquefied natural gas projects — expansion of existing terminals or adding export capabilities to underused import terminals — an extra advantage over greenfield sites as planned developments move toward sanction, Sempra CEO Jeff Martin said Aug. 5. “Greenfield projects tend to have a little bit of a higher per-unit cost than brownfield projects,” Martin said during the second-quarter earnings call.

In June Sempra placed its greenfield Port Arthur, Texas, project on the backburner, with a view to bring forward a final investment decision on expansion of its Cameron LNG facility in Louisiana, at the end of 2022. Sempra is also advancing plans for an expansion at its Energia Costa Azul LNG export project on the Baja Peninsula in Mexico, the initial phase of which was sanctioned last year. Martin said the first phase at Costa Azul was progressing, and is expected to meet its targeted start-up in 2024.

While increased costs due to inflation are likely to impact projects that are short of a final investment decision, Martin said he expects growing LNG demand to be a bigger factor in moving projects forward. “Most people who are observing this industry think it will be the most dominant fuel used in the world by the early part of next decade,” he said. “And the only way that’s going to occur is, you’re going to see a massive build-out of continued LNG development, and the U.S. should expect to take its fair share.”

Higher energy costs pose economic, political problem in Europe

(Bloomberg; Aug. 5) - After pandemic lockdowns forced Basel Hamzeh to close his Berlin cafe for months, the 53-year-old is confronting a fresh crisis: high energy bills. The cost of natural gas and electricity has surged to record highs across Europe as businesses reopen and workers return to the office. In Germany, wholesale power prices have risen more than 60% this year, leaving the owner of the Frau Honig cafe with no option but to raise prices of everything from cappuccinos to cinnamon rolls.

Energy prices are rising around the world as the economy emerges from the pandemic, fueling concerns about inflation. In Europe, plans to decarbonize the economy are also playing a part as utilities pay near-record prices to buy the pollution permits they need to keep producing power from fossil fuels. Add to that shortages of natural gas and the result are super-charged electricity prices, a bill consumers will eventually have to foot.

Spain was already forced to cut energy taxes as power prices rose to a record, and the U.K. is expected to allow utilities to increase bills a second time this year. Higher costs are a headache for politicians less than 100 days before world leaders meet in Scotland to set a pathway to net-zero emissions. Governments fear a backlash as higher utility bills increase voter resistance to paying for the energy transition. Yet, high energy costs are set to persist. Russia is flowing less gas to Europe, and Asia is scooping up cargoes of liquefied natural gas, making it harder to refill depleted storage after a bitter winter.

Cheniere sets record for LNG exports at 139 cargoes

(Natural Gas Intelligence; Aug. 5) - Cheniere Energy reported record liquefied natural gas exports from its Texas and Louisiana terminals during the second quarter, as demand surpassed expectations in a tight market. The largest U.S. gas exporter loaded

139 cargoes in the second quarter, up slightly from the previous record of 133 in the first quarter and far exceeding the 78 cargoes exported in the second quarter of 2020.

An improving outlook for the global gas market prompted Cheniere to revise its 2021 financial guidance upward. The company is now forecasting a full-year distributable cash flow of $1.8 billion to $2.1 billion, compared with the previous range of $1.6 billion to $1.9 billion. “The continued strengthening of the LNG market is yielding higher netbacks on open volumes,” said CEO Jack Fusco.

The company has continued to debottleneck production through maintenance optimization, churning out higher volumes from the liquefaction trains at the Corpus Christi, Texas, and Sabine Pass, Louisiana, terminals. It anticipates producing extra LNG through the second half of the year. A cold winter that spilled into the spring left gas inventories tight in Europe and Asia forced buyers to bid up prices for restocking. Asia was the top destination for Cheniere’s cargoes during the quarter, accounting for 45% of its volumes, followed by Europe at 35% and Latin America at 20%.

A sixth train at the Sabine Pass terminal is 90% complete and expected to enter service in the first half of next year, taking the facility’s capacity past 30 million tonnes per year.

Papua New Guinea wants merged company to pay attention

(Reuters; Aug. 5) - Papua New Guinea Prime Minister James Marape said on Aug. 5 that Australian firm Santos’ potential A$8.4 billion ($6.2 billion) takeover of Oil Search could produce high value for the country but also should satisfy "national interest.” Oil Search and Santos have yet to obtain a regulatory clearance for the merger from the Pacific island country's government.

The combined entity would own oil and gas assets in Australia, Papua New Guinea and Alaska, with the jewel in the crown their combined 42.5% stake in the ExxonMobil-led LNG project in Papua New Guinea. Marape said he hopes the merged entity, which would be a top-20 global oil and gas company, ensures a significant part of its business remains in the country and supports jobs. "We do not wish for the largest oil and gas company operating in our country to simply be a branch office of a foreign company."

"We recognize the importance of Oil Search to the PNG economy and will maintain our ongoing commitment to the country and communities in which we operate," an Oil Search spokesman said. Papua New Guinea derives a major portion of the nation’s revenue from its oil and gas fields, where players like ExxonMobil and TotalEnergies have invested heavily. The $19 billion Exxon LNG project has operated since 2014.

Saudi Aramco reports largest profit since 2018

(Bloomberg; Aug. 9) - Saudi Aramco has followed its Big Oil competitors with bumper earnings, boosted by a recovery in oil and chemical prices. The world's biggest energy company made net income of $25.5 billion in the second quarter, the highest since the end of 2018. Free cash flow rose to $22.6 billion, above the state-controlled firm's quarterly dividend of $18.8 billion for the first time since the start of the pandemic.

The reopening of major economies has triggered a surge in commodity prices, with crude up around 35% this year. Aramco's annual dividend of $75 billion, the world's largest, is a crucial source of funding for Saudi Arabia. The government, which owns 98% of the company, is trying to narrow a budget deficit that ballooned last year as energy prices tanked with the spread of the virus.

The results "reflect a strong rebound in worldwide energy demand and we are heading into the second half of 2021 more resilient and more flexible, as the global recovery gains momentum," CEO Amin Nasser said in a statement on Aug. 8. Still, the pandemic is "clearly far from over," Nasser said later on a call with reporters. Oil just had its worst week since October as the spread of the Delta variant, especially in China, clouds the short-term outlook. Brent crude fell 7% last week to $70.70 a barrel.

Impact of spreading Delta virus cuts into China's oil demand

(Bloomberg; Aug. 5) - Saudi Arabia's move to push up the cost of its oil in Asia may backfire as an outbreak of the Delta virus variant in China damps demand, while the U.S. and Russia offer more competitively priced alternatives. Saudi Aramco raised its Arab Medium and Heavy grades by 20 to 30 cents a barrel to the highest in at least four months for September sales to the region. But demand for the medium and heavy-sour barrels may suffer as China fights an outbreak of the highly infectious COVID-19 strain.

U.S. varieties of a comparable medium quality crude are being offered at rates that are lower than last month, while Russia's Urals is also becoming cheaper, according to traders. That could lead to Asian refiners seeking to buy lower amounts of contracted volumes from Saudi Aramco. China National Petroleum Corp. has forecast that the latest COVID-19 wave could wipe out 5% of short-term oil demand in the country, the world's largest crude importer.

Opponents sue over expansion of oil export terminal in Texas

(Reuters; Aug. 4) - Native tribes and environmental groups have sued the Army Corps of Engineers in Corpus Christi, Texas, federal court over its issuance of a permit to Moda Midstream, alleging that it issued the permit for the expansion of oil export marine terminal without adequately studying the project's effects on seagrass and wetlands. In an Aug. 3 complaint, the Indigenous Peoples of the Coastal Bend and others accused the Army Corps of violating federal laws in its decision to allow Moda to dredge about 3.9 million cubic yards of material out of the Corpus Christi Bay.

"One of my main concerns as a fisherman and birder is that the expansion will destroy many acres of life-sustaining seagrasses," said Patrick Nye, the president of co-plaintiff group the Ingleside on the Bay Coastal Watch Association. A Moda spokesperson said, "We are confident the nearly year-and-a-half application review process was comprehensive and the U.S. Army Corps of Engineers permit was properly issued."

The Houston-based company had been considering since 2017 — but not yet starting work — on an expansion of its Ingleside Oil Terminal, which connects Permian and Eagle Ford oil production to international markets. The complaint says expansion of "the largest export terminal in the United States by volume" would add five berths for oil tankers and barges, with the effect of doubling its vessel capacity. The Corps concluded that the project is not a major federal action because it improves an existing site.

Dakota Access pipeline expansion starts moving more oil

(The Associated Press; Aug. 6) - More oil is being shipped through the Dakota Access Pipeline to the dismay of opponents who say the expansion should not have gone into service before an environmental study has been completed. Energy Transfer executives said during a quarterly earnings call this week that the line can now transport 750,000 barrels of oil daily, which is 180,000 more than before. Energy Transfer is adding pump stations to boost the pipeline’s horsepower, and said once the full expansion is up and running as much as 1.1 million barrels of oil will flow through the pipeline each day.

The Army Corps of Engineers is evaluating the expansion in its ongoing environmental review of the line, which started moving oil in 2017. The study will determine whether the Corps reissues a permit for the line to cross the Missouri River, which was revoked last year after U.S. District Judge James Boasberg ordered the study. An attorney for the Standing Rock Sioux Tribe, which opposes the line and its expansion, said the Army Corps’ review should “study the impact of things before they occur, not after.”

The Standing Rock Reservation is downstream of where the pipeline passes under the Missouri River, and tribal members are concerned about a potential spill. Standing Rock Vice Chairman Ira Taken Alive said the expansion increases “the threat to our health and drinking water supply.” Energy Transfer has said its line is safe. The Army Corps has allowed the line to continue operating pending the environmental permit review.

Canadian oil field services companies struggle to find workers

(Calgary Herald; Aug. 4) - For the first time in six years, Canadian oil field services companies are hiring swathes of workers again, but they are struggling to find enough people to fill open positions despite Alberta's high unemployment rate. The labor shortage threatens to keep equipment sitting idle as oil and gas companies boost spending on drilling, fracking and oil field construction to cash in on crude prices that have rebounded from all-time lows to benchmarks above US$70 per barrel and natural gas prices over US$3 per thousand cubic feet.

Industry groups and labor market experts say workers are reluctant to return to the oil and gas sector because it has been so volatile in the past five years and companies have laid off thousands of workers to grapple with ever-changing commodity prices and investment levels. "They're finding it even hard to have people apply for the jobs. It's difficult to get enough resumes in the door, let alone bringing back trained and ticketed employees," said Gurpreet Lail, president and CEO of the Petroleum Services Association of Canada, which represents a range of oil field services companies.

Lail said companies can't hire from regular job banks because much of the work in the oil field is specialized and requires ticketed trades and specialized skills. Alberta's unemployment rate was stubbornly high at 9.3% in June despite the province's economy beginning to reopen, though that's down from a peak jobless rate of 15.8% in June 2020. The rate is much lower in the oil field services sector, at 5.4% in June, down from a peak of 23.5% set last June, according to federal statistics.

Texas regulator says natural gas industry deserves tax incentives

(Bloomberg; Aug. 5) - The natural gas industry should receive tax incentives similar to those provided for renewable energy projects, according to a member of the state oil and gas regulatory board in Texas. Jim Wright, who sits on the powerful commission that oversees drilling in the biggest oil-producing state, advocated tax credits for gas pipelines, storage projects and power plants.

Such provisions would better protect the state's infrastructure from weather disasters like the deadly February freeze, while also reducing flaring of excess natural gas supplies, he said. "Equalizing these incentives could assist with necessary infrastructure investments that guarantee ample supplies of this important Texas resource are available whenever they are needed," Wright said in an opinion column released Aug. 5.

[Hot weather drives Asian spot-market LNG prices to $16.90]

(Reuters; Aug. 6) - Spot prices for liquefied natural gas in Asia rose this week to their highest for this time of the year since 2013, as buyers prepare for more hot weather amid a supply crunch. The average LNG price for September delivery into Northeast Asia was estimated at about $16.90 per million Btu, up $1.30 from the previous week, sources said. Demand for LNG, mainly used in thermal plants to generate electricity, rises during the Northern Hemisphere summer to meet air conditioning needs.

Temperatures in Beijing, Tokyo and Shanghai are expected to be higher than average over the next two weeks, increasing short-term demand for cooling, weather data from Refinitiv Eikon showed. Additionally, buyers are already securing supply ahead of winter. "Prices usually peak during summer and winter and fall in between, but the shoulder season effect got squeezed this time," a London-based trader said, referring to the period between the summer and winter demand periods.

Last winter, spot prices rose to record highs above $33 per million Btu amid production constraints in export countries. Europe has failed to replenish inventories since then, competing for spot demand with China, a top consumer with scarce storage capacity.